Modelling the influence of perceived ethics and corporate reputation on performance of leather industry in Nigeria

Haim Hilman

Institute of Quality Management,
Universiti Utara Malaysia,
Malaysia
E-mail: hilman@uum.edu.my

Abdullahi Hassan Gorondutse*

School of Business Management,
College of Business,
Universiti Utara Malaysia,
Malaysia
E-mail: ahgdutse@gmail.com
*Corresponding author

Abstract: This study examines the influence of perceived ethics and corporate reputation on performance of the leather industry in the context of Nigeria. A survey questionnaire was used to collect data from leather industries in Kano North-West of Nigeria. The study used structural equation modelling (SEM) with partial least square modelling. However, as predicted, the path coefficient results support the direct influence of corporate reputation, which was found to be significant to organisational performance. In contrast, perceived ethics was not significant to organisational performance. This may indicate that although businesses in Nigeria quickly understand the circumstances of adopting ethical action practices, the concern with social practices is still deficient, particularly in leather industry. The theoretical and practical implications of these findings are discussed.

Keywords: perceived ethics; corporate reputation; organisational performance; leather industry; Nigeria.

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Biographical notes: Haim Hilman is an Associate Proffesor of Strategic Management at College of Business, Universiti Utara Malaysia (UUM). Currently he is a Director Institute of Quality Management at UUM. Besides teaching of undergraduate and postgraduate levels, he also actively involves in research activities. He also actively supervises a numerous of PhD students in the area of strategic management. To date he has published a few books in strategic management and a number of journal articles in the field of strategic management and management.

Abdullahi Hassan Gorondutse is a Lecturer of Business Management at Kano State College of Arts and Science, North-West of Nigeria. Currently he is a PhD Candidate at School of Business Management, College of Business, Universiy Utara Malaysia. To date he has published a number of journal articles in the field of strategic management and management.

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1 Introduction

Business social responsibility (BSR) has become more topical; it is now conventional and focuses on whether firms behave responsibly towards the community or to wider society. The idea of business having responsibility to a wide range of stakeholders beyond those who have contributed capital to the business is good for society (Abiodun, 2012; Adegbite and Chizu, 2011; Carroll, 1989). BSR should not be seen as a new idea in Nigeria, as it is a well-recognised tradition especially in family-owned businesses that are well grounded towards society through charity and philanthropic activities.

However, a large increasing body of literature available over the past years has demonstrated the significance of BSR as an effective tool for business towards enhancing performance. The need to examine socially responsible behaviour in Nigerian industries is necessary, as many businesses in Nigeria are driven by the need to make more profit to the detriment of all the stakeholders. Some do not adequately respond to the needs of host communities, employee welfare, environmental protection and community development.

Previous research has shown that BSR can increase profitability, sustainability, integrity and reputation of any business that includes it in its strategy. This study will focus on the leather industry in Nigeria, which offers huge potential growth. However, the industry is struggling to maintain export competitiveness, which is evidenced by the fact that the leather industry accounted for 36.84% of non-oil export in 2004 but only 20.4% in 2005 (UNCTAD, 2009; Amakom, 2006). Research in this vital sector in finding its action on responsible behaviour is necessary so as to sustain its competitive advantage and fulfil its growth potential.

Consequently, the perception of BSR activities entails the dependence of business success on the relation and interactions between an organisation and its stakeholders, for example in the ability of the business to satisfy its customers’ needs or want to make available suitable pricing pair safe, hygienic products (Gorondutse and Hilman, 2013). Also, as a component of international strategies, businesses are threatened with losing regular direct orders if they fail to meet the environmental regulations required by its consumers. Therefore, businesses must enhance their corporate reputation to meet the changing demands of the diverse stakeholders. In addition, the industry must realise that stating BSR as one of their mission statements holds a special meaning for the stakeholders.

Therefore, the aim of this paper is to examine the relationship between perceived ethics and corporate reputation on performance of the leather industry in Nigeria. To the best of our knowledge, no related research exists in the context of the study. The paper is organised as follows: the next section reviews previous research on BSR, perceived ethics and corporate reputation to develop a conceptual framework that indicates the significant relationship between these variables: next, we tested the predicted pathways in the framework; finally, the paper discusses the managerial and theoretical implications of the study.

2 Literature review

2.1 Business social responsibility (BSR)

To date in the literature, there is no unanimously accepted definition of BSR (Matten and Moon, 2008; Torugsa et al., 2012). This might be because CSR is a sunshade term that overlaps with some, or is identical with, other concepts of business–society relationships (Matten and Moon, 2008; Torugsa et al., 2012). In fact, many scholars are of the view that BSR and CSR are identical, exchangeable and interchangeable (Beneke et al., 2012; Dewan, 2009; Lee, 2008; Matten and Moon, 2008; Perrini, 2006). Recently, The International Organization for Standards (ISO) refers to social responsibility as a positive move towards organisation to address financial, societal and technological challenges and issues in a way that aims to provide benefit to humanity, community and society (ISO, 2012).

BSR has been regularly seen as responsible acts of public and private sectors towards society and environments (David, 2012). CSR is also known as Corporate Principles, Corporate Nationality, Business Ethics, Social Performance, or Sustainable (David, 2012; Lee, 2008; Matten and Moon, 2008). All these are also known as ethical principles or views whereby a unit, be it an organisation or individual, has an obligation to act to benefit society at large (Lee, 2008; Matten and Moon, 2008).

2.2 Perceived ethics

Business ethics are moral behaviours that business adopts to guide the way it behaves (Valentine and Fleischman, 2008). Organisational ethics is a desire to adopt moral principles and company practices. However, some organisations encourage ethical customs by stating optimistic ideals that influence organisational members' moral beliefs and performances (Trevino and Nelson, 2004; Valentine and Fleischman, 2008). In recent years, this has required firms to become more moral and has been noticeably underlined in the community mind by several very publicised collapses of US-based firms, such as Enron, WorldCom and Tyco; in addition, Australian firms such as HIH, Onetel, Westpoint and UMP, and Parmalat in Italy (Cacioppe et al., 2008). The recent issues concerning dozens of firms paying bribes to the government of Saddam Hussein has also furthered to this unenthusiastic notion (Cacioppe et al., 2008).

Furthermore, ethics-related programmes are more likely to enhance organisational performances, and corporation participation in BSR behaviour. It ought to persuade their employees to work more ethically (Valentine and Fleischman, 2008). For instance, dissonance theory suggests that workers understand decreased disagreement and increased happiness when a company is thought to be ethical (Cacioppe et al., 2008; Viswesvaran et al., 1998). The same should happen when communally responsible strategies are initiated by a firm to enhanced welfare and the needs of key stakeholders (Clarkson, 1995; McWilliams and Siegel, 2001; Valentine and Fleischman, 2008). Such hard work institutes attractive goals for BSR, which should preferably improve the similarity linking the desires of the corporation and the wishes of workers (Cacioppe et al., 2008; Tuzzolino and Armandi, 1981).

2.3 Corporate reputation

Business managers believe corporate reputation is the critical elusive resource that leads to competitive advantage (Siltaoja, 2006). The significance of corporate reputation has been supported by a highly positive connection between corporate reputations and the return of assets (Deephouse, 2000; Roberts and Dowling, 2002). There are numerous examples of enabling machinery to support this procedure; a good reputation insulates the business from stakeholder perception of negative information (Lange and Washburn, 2012). In addition, a significant reputation is also attractive to employees and customers (Lange et al., 2011).

Similarly, the association between corporate reputation and BSR in developing economies such as Nigeria is not uncomplicated. The impact of BSR on corporate reputation in the eyes of diverse but mostly external stakeholders is twisted by how the business converts its BSR actions and how its activities are reported in the national media and other communication media. A business can use BSR deeds as machinery to indicate desirable features to stakeholders (Fombrun, 2005). BSR can be viewed as a form of strategic investment in reputation building or maintenance by making strategic investment in reputation.

2.4 Organisational performances

Firm performance is one of the most relevant constructs in the field (Peloza and Papania, 2008; Rumelt et al., 1994), and the construct is commonly used as the final dependent variable (Richard et al., 2009) in various fields (Cho and Pucik, 2005; Peloza and Papania, 2008; Wiklund and Shepherd, 2003). Despite its relevance, research into firm performance suffers from problems such as lack of consensus, selection of indicators based on convenience and little consideration of its dimensionality (Combs et al., 2005; Crook et al., 2008; Richard et al., 2009).

Many studies measure firm performance with a single indicator and represent this concept as one-dimensional, even while admitting its multidimensionality (Glick et al., 2005). If several dimensions exist, a researcher should choose the dimensions most relevant to his or her research and judge the outcomes of this choice (Richard et al., 2009). Ray et al. (2004) stressed the warning against the difficulties of testing the resource-based view (RBV) using aggregated measures of performance and suggesting the use of indicators directly connected to the resources under analysis. The fact that profit and growth are relevant motives for the existence of a business firm and must be included in any attempt to measure performance is indisputable (Peloza and Papania, 2008).

2.5 Perceived ethics and performances relationships

Organisational ethics is a firm's embracing of beloved ethical principles and business practices. Some firms encourage an ethical culture/climate by establishing significant values that persuade organisational members' ethical beliefs and measures (Trevino and Nelson, 2004). Other firms advance organisational ethics with codes that have ethical values and behavioural necessities. A natural expansion of organisational ethics is a company's participation in BSR, which includes answering the requirements of stakeholders, with exacting focus on societal issues and opportunities (Joyner and Payne, 2002). It, therefore, stands to reason not only that ethics programmers increase a company's ethical culture, but also that its consideration of BSR and other ethics programmers should also enhance a firm's performance (Berrone et al., 2007; Sen and Bhattacharga, 2001; Singhapakd et al., 1995). Previous studies found the relationship between perceived ethics and financial performance to be positive (Spencer and Taylor, 1987; Waddock and Graves, 1994). However, Aupperle et al. (1985), and Coffey and Fryxell (1991) found there are no relationships or mixed results, and methods used are varied and contentious (Verschoor, 1998). Despite that, other studies use perceived ethics and performance from the perspective of customers, and there is inconsistency in the results (Tian et al., 2011; Stanaland et al., 2011; Peng-lin et al., 2011; Valentine and Fleischman, 2008). On the basis of the above, this study will test the relationships of the organisation perspectives and will look at both financial and non-financial aspects of performance measurement. This relation is in line with stakeholder theory, which states that managers should tailor their policies to satisfy a number of stakeholders (Freeman, 1984). Therefore, we posit:

H1: Perceived ethics is positively associated with organisational performances.

2.6 Corporate reputation and performance relations

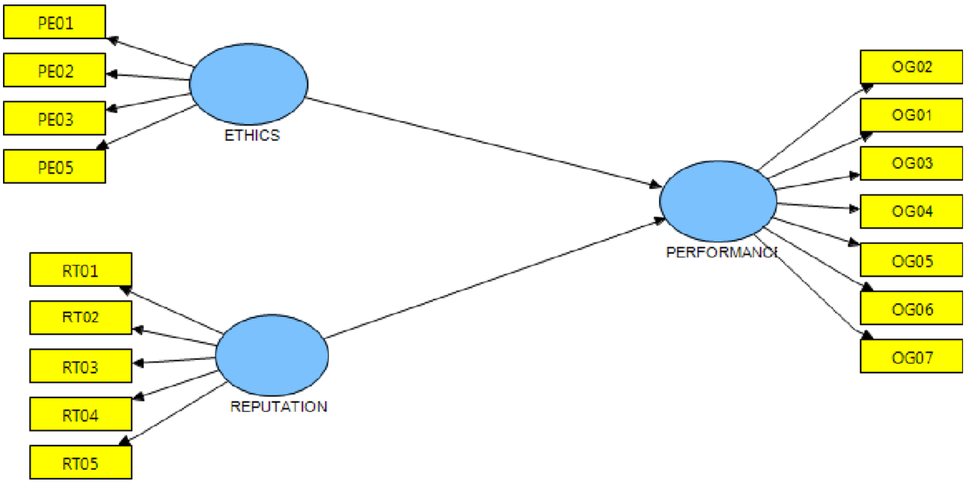
Previous research provides evidence that corporate reputation is a fundamental subtle resource that gives a firm reasonable benefit (Brammer and Millington, 2005; Fombrun and Shanley, 1990; Hsu, 2012; Lai et al., 2010; Shamsie, 2003; Rettab et al., 2009). The connection between BSR and corporate reputation in developing nations is not clear-cut; this is because businesses functioning in emerging nations are lacking skills and tradition in communicating internal actions, such as BSR activities. This limits the business ability to influence stakeholder perception to boost its corporate reputation. Hsu (2012) and Lai et al. (2010) revealed that the association between BSR and brand performance is partially mediated by corporate reputation. This means that consumer perception about firms' BSR initiatives is positively related to corporate reputation. Therefore, we posit:

H2: Corporate reputation is positively related to organisational performances.

2.7 Underpinning theory

This theory, also known as management theory, proposes that management should not make the making of profit its primary concern and should view the claims of other groups as constraints on this objective. Similarly, the theory of the stakeholder is being used to guide the study: the theory postulates that managers should tailor their policies to satisfy numerous constituents. In addition, firms involved in repeated relations with stakeholders on the basis of trust and cooperation have an incentive to be honest and ethical, since such behaviour is beneficial to the firm performance (Freeman, 1984; Donaldson and Preston, 1995; Jones, 1995) (See Figure 1).

Figure 1 Research framework model (see online version for colours)



3 Methodology

3.1 Sample and data collection

The population of this study consists of 325 leather industries registered with SMEDAN as in 2010 in Kano state in the north-west of Nigeria. This is because the state is the centre of commerce, and virtually all manufacturing industries in Nigeria have one or more factories in the state (Sani and Sulaiman, n.d.). Additionally, the city and the nature of commercial activities attract people of different religions and ethnic backgrounds. Hence, to this extent, it could be said the sample that will be derived from this population will be relatively homogeneous. The study employs a simple random sampling technique, in concurrence with sample selection formulae, which is stated as follows (Yamane, 1967).

$$n = \frac{N}{1 + N(e)^2}$$

where n = sample size; N = population of the study; e = level of precision.

$$n = \frac{325}{1+325(0.05)^2}$$
$$n = \frac{325}{1+325(0.025)}$$
$$n = \frac{325}{1+0.8125}$$
$$n = \frac{325}{1.8125}$$
$$n = 179.$$

Therefore, based on the above-mentioned formulae, a representative sample size of 179 was selected from the population of 325 industries in the state with a precision level of ±5% and a confidence level of 95%. Consequently, out of 179 questionnaires distributed, a total of 125 were returned completed, representing 69.8% response rate, which is significant. Nine questionnaires were discarded owing to some missing data. Before testing, variables were examined through various SPSS version 18 measures for a better precision of data entry, missing value and fit between distributions and the assumptions of SEM. Four cases were identified through the process of Mahalanobis distance analysis, as multivariate outliers with a P value <0.05. These respondents were automatically deleted, leaving 112 cases for analysis.

3.2 Measurement

3.2.1 Perceived ethics

Perceived ethics is a company decision concerned with ethical values and business practices. Some businesses promote an ethical culture/climate by establishing significant values that persuade organisational members' ethical beliefs and actions (Trevino and Nelson, 2004). Perceived BSR, which measures a firm's performance, will be adapted from the scale developed previously (Maignan, 2001; Stanaland et al., 2011), because the scale has been used by other researchers and found to be reliable (Stanaland et al., 2011). The scale has four items, and will directly capture organisational perception of how strongly they view BSR, when respondents rate their firm's performances.

3.2.2 Corporate reputation

Corporate reputation is a joint representation of business long-ago activities and potential prospects that explain how key resource providers interpret a business initiative and assess its ability to deliver valued customers. Petrick (2002) and Dodds et al. (1991) refer it as the prestige or status of a product or service as perceived by the purchaser, based on the image of the supplier. Similarly, Lai et al. (2010) see corporate reputation as the general intuition dazzling the perception of a combined stakeholder group. Therefore, in this study we refer to corporate reputation as the general impression reflecting the key stakeholder perception about the business initiatives, particularly on the social responsibility issue and the assessments about the business product or services. Five items were adapted from Petrick (2002) to measure the construct, and were tested by Hsu (2012) to achieve internal consistence reliability and convergent validity.

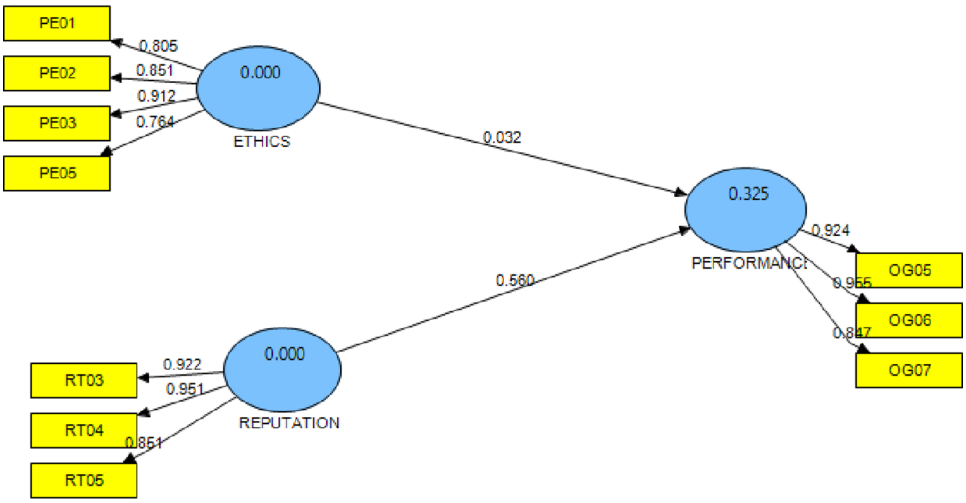
3.2.3 Organisational performance

Organisational performance, or firm performance as we refer to it in this study, is a division of organisational efficiency that covers operational and financial outcomes (Cameron, 1986). These can be characterised into two main groups, which are financial performance and non-financial performance. Financial performance is, for example, profitability, liquidity and financial risk, which are earnings, associated to enterprises' efficiency per operation. Non-financial performance is usually associated with customer base, brand devotion, image and reputation, technology and initiatives development as well as quality of human resources (Kaplan and Norton, 2000). For this reason, the study will adapt this scale because over the years many researchers have suggested that performance measurement should include both financial and non-financial measurement investigation, which is measured by seven items (Kaplan and Norton, 1992; Venkatraman and Ramanujam, 1986).

3.3 Analysis method

Data were analysed using SEM, through Partial Least Square (SmartPLS 2) owing to the small sample size (Ringle et al., 2005) (See Figure 2).

Figure 2 Revised model (see online version for colours)



4 Results and discussion

4.1 Demographic profile of respondents

Table 1 shows the profile of respondents: the result reveals that 77.7% of the respondents have less than 5 years of existence. This implies that the majority of the respondents are not long in operation. In terms of ownership structures, 75.9% of respondents are individual owners, and 12.5% are partnership businesses. With regard to the number of employees, 80.4% have fewer than 20 employees; this indicates the uniqueness of oneman business. Furthermore, most of the leather industries have less than 1 million Nigerian currencies as their assets and represent 47.3% (see Table 1).

Table 1 Demographic breakdown of respondents

Demographic profile	*Category*	*No. of respondents*	*%*
Years of existence	Less 5 years	87	77.7
	5–10 years	15	13.4
	11–20 years	6	5.4
	21–40 years	4	3.6
Location	Kano	103	92
	Lagos	9	8
Ownership	Individual	85	75.9
	Partnership	14	12.5
	Joint venture	3	2.7
	Others	10	8.9
No. of employees	Less 20	90	80.4
	21–40	8	7.1
	41–60	5	4.5
	61–80	1	0.9
	81–100	7	6.3
	100 and above	1	0.9
Activities	Food and beverages	58	51.8
	Tobacco	10	8.9
	Textiles	6	5.4
	Weaving and dressing	24	21.4
	Leather and handbags	9	8.0
	Non-metric	1	0.9
	Recycling	3	2.7
	Others	1	0.9
Assets	Less 1 million	53	47.3
	1–100 million	34	30.4
	101–200 million	18	16.1
	201–300 million	1	0.9
	301–400 million	3	2.7
	401–500 million	1	0.9
	501 million and above	2	1.8

4.2 Goodness of measures

The paper attempts to ascertain the construct validity, in which we follow a two-step modelling approach as suggested by Anderson and Gerbing (1988). We started by assessing the convergent validity and reliability, followed by the discriminant validity, then internal consistency reliability as shown in Tables 1 and 2, respectively. As a rule of thumb, construct validity is ascertained if the loadings are greater than 0.7, composite reliability is greater than 0.7, average variance extracted is greater than 0.5 and Cronbach alpha is greater than 0.7 (Bagozzi et al., 1991; Fornell and Larcker, 1981; Gefen et al., 2000; Hair et al., 1998; Nunnally and Bernstein, 1994).

Table 2 Result of CFA for measurement model

Construct	*Items*	*Factor loadings*	*Internal reliability Cronbach alpha*	*Composite reliability*[a]	*Average variance extracted*[b]
Perceived ethics	PE01	0.81			
	PE02	0.87			
	PE03	0.91			
	PE04	0.75	0.86	0.90	0.70
Organisational performance	OG05	0.93			
	OG06	0.94			
	OG07	0.82			
			0.90	0.94	0.83
Corporate reputation	RT03	0.92			
	RT04	0.95			
	RT05	0.85	0.89	0.93	0.83

OG01, OG02, OG03, OG04, RT01 and RT02 were deleted because of low loadings of less than 0.50 (Fornell and Larcker, 1981); (a) Composite Reliability (CR) = (square of the sum of the factor loadings)/[(square of the summation of the factor loadings) + (square of the sum of the error variances)]; (b) Average Variance Extracted (AVE) = (sum of the square of the factor loadings)/[(summation of the square of the factor loadings) + (summation of the error variances)].

In view of the reliability analysis, we established discriminant validity by calculating share variance between each pair of constructs and verifying that it was lower than the average variance extracted from the individual construct (Bagozzi and Lynn, 1982; Fornell and Larcker, 1981). As shown in Table 3, the squared correlations for each construct are less than the square root of average variance extracted by the indicators measuring that construct, indicating adequate discriminant validity. In general, the measurement model demonstrated adequate reliability, convergent validity and discriminant validity.

Table 3 Discriminant validity of construct

	Ethics (1)	*Performance (2)*	*Reputation (3)*
Ethics (1)	0.84		
Performance (2)	0.21	0.91	
Reputation (3)	0.32	0.57	0.91

This study examines the relationship between perceived ethics and corporate reputation on organisational performance in the Nigerian leather industry. The interpretation of the hypotheses results is summarised in Table 4. The result reveals that there is a significant relation between corporate reputation and organisational performance (path coefficient = 0.56; $t = 5.36$). This finding is in line with the studies of Hsu (2012) and Rettab et al. (2009). Hence, hypothesis H2 is supported. Similarly, the relationship between perceived ethics and organisational performance found insignificant relation (path coefficient = 0.03; $t = 0.33$) and the result is not in line with Stanaland et al. (2011) or Valentine and Fleischman (2008); thus, hypothesis H1 is not supported.

Table 4 Model hypotheses

Hypotheses	*Path coefficient*	*S.E*	*T value*	*Decision*
PF ← PE	0.032	0.10	0.33	Not Supported
PF ← RT	0.56	0.10	5.36	Supported

5 Conclusion, managerial, theoretical contribution and direction for future studies

This paper examines the relationships between perceived ethics, corporate reputation and performance of the leather industry in emerging nations, particularly Nigeria. The results indicate that BSR has a significant and positive relation with corporate reputation and organisational performance. This result is in line with previous empirical studies conducted in Western developed nations showing a positive relation between BSR efforts and organisational performances. Unexpectedly, perceived ethics showed no significant link to organisational performance of the leather industry in Nigeria. Furthermore, this study reveals an impact of BSR on organisational performance in an emerging nation, such as Nigeria, which is similar to that of a developed nation, e.g., USA and Western Europe. Equally, this study has extended the current body of knowledge beyond developed nations.

Consequently, researchers and practitioners in developed nations have plenty of evidence on the relationship between social responsibility and organisational performance; but to the best of our knowledge this study provides an evidence of this relationship in a non-developed nation context for the first time. Hence, the findings maintain the validity of the assertion that as a result of the absence of strong institutional support for BSR, and the presence of weak and ineffective rules to guard against unethical practice companies relax strategies involving the implementation of social behaviour actions (Foo, 2007).

5.1 Managerial/theoretical contribution

The results indicate that perceptions of BSR initiatives of the leather industry have a positive effect on corporate reputation but no significant effect on perceived ethics of the leather industry in Nigeria. Thus, this study has contributed to the literature of social responsibility and smaller firms. The findings of this study have the following relevance for managers of the leather industry. First, the fact that BSR activities improve the corporate reputation of manufacturing industry encourages managers of the leather industry to continue investing in BSR actions. Stakeholders tend to be more satisfied with businesses that are more socially responsible, and perceive these businesses more favourably in terms of corporate reputation, and reward these businesses. Second, managers should employ BSR activities to build corporate reputation without any other purpose when designing corporate reputation. This implication is in line with business ethics from a Kantian perspective (Bowie, 1999), and explains why BSR initiatives may be viewed as real options (Husted, 2005). BSR actions act as a safety net to buffer and protect a business from unpredictable negative events (Fombrun et al., 2000). From the perspective of policy-makers in leather industries, BSR actions are key elements that lead to intangible assets that BSR accrues, such as corporate reputation, perceived ethics and legitimacy.

5.2 Limitations and direction of future studies

This study, like any other research, has some limitations that should be well known. First, the data for the study were mainly collected from selected leather industries in Kano metropolis, Nigeria. Thus, this is based on data from a single country and caution must be taken when generalising the results to other developing nations because it is cross-sectional in nature. Second, the direct effects of the independent variables on the dependent variables are difficult to conclude. To overcome some of these limitations, future studies should increase the sample size or examine different industries. In addition, future studies should employ a longitudinal research design, so that the direct effect of the independent variables on the dependent variables could be concluded. In addition, future research should include other variables such as trust and proactive strategies.

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